GOVERNMENT OF NEWFOUNDLAND AND LABRADOR

REPORT OF COMMITTEE OF OFFICIALS

ON

PETROLEUM PRODUCT PRICES

IN

NEWFOUNDLAND AND LABRADOR

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104-01676/

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Foreword and Acknowledgements

There has been increasing concern in the Province of Newfoundland and Labrador over the rising cost and apparent anomalies in the prices of petroleum products to consumers. Because of this growing concern an informal committee of government officials was created in late April 1980. The committee is comprised of representatives from the Department of Mines and Energy, the Department of Consumer Affairs and Environment and the Newfoundland Statistics Agency, Executive Council. The data for the committee's report were extracted from the periodic survey, "Annual Cost of Fuel and Utilities - Newfoundland and Labrador - 1980", which is prepared by the Newfoundland Statistics Agency, Executive Council, on behalf of the Department of Mines and Energy. The report covers the month of April, 1980, and all comments reflect the conditions and causes affecting prices at that time.

Petroleum product pricing is a complex subject requiring cautious and comprehensive analysis as well as complete cooperation from many industry and government officials. Where such cooperation has been lacking it has been more difficult to draw final conclusions.

Petroleum prices throughout the Island of Newfoundland were in most cases both consistent and competitive among the various dealers. Any apparent abnormalities could usually be attributed to the distribution process. With respect to Labrador, the committee, despite repeated efforts, was unable to obtain enough information to fully explain some of the anomalies which exist.

The committee would like to acknowledge the full cooperation of officials from Ultramar Ltd. St. John's, for their assistance in explaining the various factors which determine petroleum product prices in Newfoundland and Labrador. Officials of Imperial Oil Ltd. in Halifax and Montreal and Irving Oil Ltd. in Saint John were also most helpful in providing petroleum pricing data.

The report benefited greatly from the cooperation of officials of the Northern Development Division (Headquarters Section - St. John's, and the Goose Bay office) of the Department of Rural, Agriculture and Northern Development - for their aid in understanding certain aspects of the situation in Labrador.

Other acknowledgements go to representatives of John Penney & Sons, Ramea, and Woodward's Oil Ltd., Happy Valley/Goose Bay.

Introduction

This report has been prepared by officials of the Department of Mines and Energy, the Department of Consumer Affairs and Environment, and the Newfoundland Statistics Agency, Executive Council in an effort to understand and explain anomalies in the pricing of petroleum products in Newfoundland and Labrador.

The first section of the report highlights the main characteristics of the survey, "Annual Cost of Fuel Utilities - Newfoundland and Labrador - 1980", which the committee relied upon for its base data.

The second, third and fourth sections of the report analyse the committee's main findings on the pricing of furnace fuel, stove oil, and motor gasoline (regular and unleaded) throughout the Province.

Appendix A outlines and illustrates the principles which govern the pricing of furnace fuel, stove oil, and motor gasoline in the Province. Some readers will gain a better insight into the complexities of petroleum pricing by persuing this Appendix.

Finally, Appendix B provides comparisons of the prices of the above mentioned petroleum products among the different provinces in Canada.

Note: In complying with the guidelines of the Provincial Metric Conversion and Standards office, dual measurements will not be used in this report. Therefore, furnace fuel and stove oil pricing data is presented in standard form, cents per litre.

Summary & Conclusions

In general, the pricing of petroleum products throughout the Province appears to be a competitive process.

For the petroleum product furnace fuel Division V, Humber District, had the lowest weighted average price at 80¢ per gallon, and Division X Labrador, had the highest weighted average price at 85.0¢ per gallon. While the Labrador figure is not unexpectedly the highest in the Province, it is slightly over 3.0¢ per gallon higher than the Island average. This differential between the Island and Labrador for furnace fuel can be attributed to additional transportation charges.

The two communities on the Island having the highest prices were Ramea in Division III, South Coast, at 88.5¢ per gallon, and Change Islands in Division VIII, Notre Dame Bay, at 88.8¢ per gallon. In the case of Ramea the higher price results from a different distributing and marketing arrangement, notably the operation of an independent oil company. In Change Islands the higher price results from the higher transportation charges associated with shipping product to the island community by ferry. A further point is that a municipal fuel tax is in effect in both these communities, 1.0¢ per gallon in Ramea, and 0.5¢ per gallon in Change Islands.

The lowest price for furnace fuel, 80.0¢ per gallon, was recorded in a number of communities, notably Fermuse, Deer Lake, Corner Brook, Benoits Cove, Steady Brook and Halfway Point.

The general conclusion which can be drawn respecting furnace fuel is that prices throughout the Province are reasonably consistant.

For the petroleum product stove oil Census Division IV and V, St. Georges and Humber district, had the lowest weighted average price at 85.5¢ per gallon. Census Division X, Labrador has the highest weighted average price at 99.1¢ per gallon.

On the Island, only one community, Change Islands had a price significantly above the Island average. The price of 94.3¢ per gallon is 7.4¢ per gallon higher than the Island average of 86.9¢ per gallon. As was the situation with furnace fuel the higher price is due primarily to the higher transportation charges involved in shipping product to the island community by ferry.

The lowest price for stove oil in the Island was recorded at Kelligrews where the price was 84.1¢ per gallon.

The situation in Labrador regarding the pricing of stove oil is more complex than on the Island, particularly as it relates to the isolated coastal communities . (See Appendix A) However in the Happy Valley/Goose Bay area and in the southerly communities of Labrador, namely L'Anse aux Loup, West St. Modeste, Red Bay and Forteau, the pricing of stove oil is quite close to the Island weighted average price. The prices in these communities, 87.1¢ per gallon in Happy Valley/Goose Bay, 88.3¢ per gallon in Marys Harbour and L'anse aux Loup and Forteau, and 90.3¢ per gallon in Red Bay, are in line with the Provincial weighted average of 86.9¢ per gallon. The differential results mainly from higher distribution charges.

For the remaining locations included in the survey, all of which are isolated coastal communities, i.e. Cartwright, Mary's Harbour, Nain, Makkovik and Port Hope Simpson, the distribution and marketing system is more involved.

The additional steps involved in the final delivery of product to consumers in these communities, notably additional transportation costs and the wholesale and retail margins, result in prices considerably higher than those in other parts of the Province. Prices range from a low of $1.098 per gallon in Nain to a high of $1.22 per gallon in Port Hope Simpson, (between 22.1¢ per gallon and 34.3¢ per gallon higher than the Provincial average).

The situation in these isolated coastal communities is a complex one requiring more detailed information than was available for this report, and supports the conclusion of the committee that Government should send officials to Labrador to determine if anything can be done to bring prices in line with other locations in the Province.

The price of motor gasoline throughout the Province is more varied due to differences in pricing practices followed by agents in different locations. The retail margin a dealer places on motor gasoline is a consequence of two major factors; the sales volume and degree of competition.

The results of the survey show that for regular gasoline, Census Division III, South Coast had the lowest weighted average price at 29.3¢ per litre, and Census Division IX, Northern Peninsula, had the highest weighted average price at 31.0¢ per litre. The Provincial and Island weighted average price was 30.0¢ per litre.

The lowest prices on the Island were recorded in Fogo and Seldom at 27.7¢ per litre, and the highest Island price was recorded at Victoria, at 32.9¢ per litre.

The communities of Labrador City - Wabush and Happy Valley/Goose Bay, showed prices comparable with those on the Island and this is apparently the result of competition among retailers. The price of regular gasoline in Labrador City - Wabush, 30.4¢ per litre is almost the same as the Island average of 30.0¢ per litre.

In the communities on the coast, prices range from a low of 31.7¢ per litre in Makkovik to a high of 37.0¢ per litre in Red Bay, which incidentally is the highest price in the Province. As is detailed in the report the differences in price for regular gasoline in isolated communities in Labrador are the result of wholesale and/or retail dealer practices.

For unleaded gasoline, Census Division IV, St. Georges had the lowest weighted average price at 30.7¢ per litre, and Census Division IV, Northern Peninsula had the highest weighted average price at 32.2¢ per litre. The Provincial and Island weighted average price was 31.5¢ per litre.

The highest price for unleaded gasoline in the Province was recorded at Victoria, 33.9¢ per litre, and the lowest prices were found in Fogo and Seldom, 28.8¢ per litre. The difference is these prices, as for most other locations in the Province, is due to the management practices followed by different dealers.

In concluding, the committee recommends that a more detailed investigation of the pricing of stove oil and regular gasoline for the coastal communities in Labrador be conducted and, in addition, it recommends that a similar report be produced on an annual basis in order to keep consumers better informed of the pricing situation in their own communities and how it compares with the rest of the Province.

I - Characteristics of the Survey

For the purposes of this survey the ten Statistics Canada Census Divisions of the Province were utilized. Within these areas the largest communities were surveyed. In addition, a number of communities were randomly selected from the remaining smaller communities in each Census Division resulting in a grand total of 58 communities throughout the Province.

Fuel and stove oil selling prices* were obtained from all dealers in the selected communities. For gasoline up to five stations were priced in a community. For each community a median** selling price was calculated for each of the different products. To calculate Census Divisions, Island and provincial weighted average prices, the median prices were weighted by the population in the area.

Information on the cost of furnace fuel and stove oil was available for all the communities surveyed in the first nine Census Divisions, and the community of Happy Valley/Goose Bay in Census Division X. The communities of Labrador City and Wabush had information on furnace fuel only, and the remaining communities on the coast of Labrador included in the survey reported pricing data for a product labelled "multi-purpose fuel". In the case of the more southerly communities covered, specifically L'Anse aux Loup, West St. Modeste, Forteau, and Red Bay, this multi-purpose fuel is the petroleum product stove oil. For the remaining communities on the coast of Labrador - Cartwright, Mary's Harbour, Nain,

* Selling price includes cartage, drum charges and municipal taxes.

** To obtain the median value total range of prices was listed and the middle value is the median price.

Makkovik and Port Hope Simpson - the multi-purpose fuel is the petroleum product No. 1 Artic diesel, a fuel which is very similar to stove oil, and for the purposes of the report will be referenced as stove oil.

The cost of gasoline in full-service stations was obtained for regular and unleaded grade gasoline in as many locations included in the survey as was possible. Information on the price of regular gasoline was available for all locations. In the case of unleaded gasoline there were 13 communities for which prices were not available. In the case of Ramea and English Harbour West in Division III, Benoits Cove in Division V, and Change Islands in Division Viii, no information was available on the prices of unleaded gasoline. For Census Division X only the communities of Labrador City - Wabush and the community of Happy Valley/Goose Bay reported pricing data for unleaded gasoline.

II - Furnace Fuel

Table 1 shows the weighted average price of furnace fuel for the ten Census Divisions covered in the survey. In the 1980 Survey, Census Division V, Humber District showed the lowest price at 80.0¢ per gallon. While the Labrador figure is not unexpectedly the highest in the Province it is only 0.4¢ per gallon more than that of Census Division III, South Coast at 84.6¢ per gallon, and just over 3.0¢ per gallon higher than the Island average. This differential between Labrador and the Island for furnace fuel can be attributed to higher transportation charges.

On closer scrutiny two communities in the Province have prices warranting further comment. The community of Ramea in Division III,

South Coast, and the community of Change Islands in Division VIII, Notre Dame Bay, are priced at 88.5¢ per gallon and 88.8¢ per gallon respectively, representing between 6.6¢ per gallon and 6.9¢ per gallon above the Island average. (See Table 2)

In Ramea the higher price results from somewhat unique distributing and marketing arrangements. Whereas most furnace fuel in the Province is sold either directly by the oil company through a company employee, or indirectly through an agent who gets a commission, in Ramea it is sold through an independent oil company. (See Appendix A) An independent oil company, as defined in this report, is a company which buys product from a major oil company, e.g. Ultramar, at a discount and resells that product to the consumer setting its own price. In Ramea, product is delivered to a marine terminal in that community by its supplier, a major oil company. The independent in turn distributes product to the community of Grey River, where it has an agent, and to the community of Francois, where it has an employee. As the amount of the discount to a company operating as an independent is usually low, this type of company must charge a price which recovers its costs and gives a reasonable rate of return on its investment. The higher costs in Ramea can be explained as being due to this arrangement.

In Change Islands the higher price is a result of the transportation network. Unlike its neighboring community Fogo, which has a marine terminal, Change Islands must have product trucked to Farwell where in turn it is ferried across to the island community. These additional steps, particularly the ferry charges, result in the higher price.

III - Stove Oil

Table 1 shows the weighted average price of stove oil for the ten Census Divisions in the Province covered in the survey. Census Divisions IV and V, St. Georges and Humber District, had the lowest price at 85.5¢ per gallon. Census Division X, Labrador, had the highest price at 99.1¢ per gallon.

On the Island, only one community, Change Islands in Division VIII, Notre Dame Bay, had a price signifigantly above the Island average (See Table 2). The price of 94.3¢ per gallon charged to Change Islands consumers is 7.4¢ per gallon higher than the island average of 86.9¢ per gallon. (See Table 1). Similar to furnace fuel, this higher price is due primarily to the increased transportation charges resulting from product being shipped to the island community. The explanation for the situation in Ramea, where stove oil sells for 90.5¢ per gallon, has already been covered in the discussion of an independent oil company in the preceding section on furnace fuel (See Table 2)

Table 2 shows that prices in effect among the majority of locations on the Island vary within a range of 2.0¢ per gallon from the Island average. This marginally lower or higher price can be attributed to either varying distribution charges or local fuel taxes, both of which are incorporated into the final price (See Table 5).

The stove oil pricing situation in Labrador is more complex than on the Island, particularly in the isolated coastal communities. (See Appendix A) However, in the Happy Valley/Goose Bay area and in the southerly communities of Labrador, namely L'Anse aux Loup, West St. Modeste, Red Bay and Forteau, the marketing of stove oil is basically the same as for most locations on the island. In these communities product is distributed by tankwagon from marine terminals located in Happy Valley/Goose Bay and L'Anse aux Loup. In each community the oil company sets a posted price and there is generally little variance from that price. The agent earns a profit from the commission on fuel sales. Consequently, the price for stove oil in these communities varies little from the island average, no more than 2.0¢ per gallon to 3.0¢ per gallon on average, (See Table 1 & 2)

For the remaining locations included in the survey, all of which are isolated coastal communities, i.e. Cartwright, Mary's Harbour, Nain, Makkovik and Port Hope Simpson, the distribution and marketing system is more complex. Product is distributed from the Happy Valley/Goose Bay area to these communities by an independent oil company. This independent agent delivers product in its own tanker on a consignment basis to agents in these isolated communities. The only exception to this rule is Nain, where the independent pays a salaried employee. Effectively what happens in all locations except Nain is the following: the independent buys his product from an oil company for a price approximating the posted price; the independent sells product as a wholesaler to his agents in these coastal communities, the agents then sell as retailers, setting the final product price to the consumer.

The additional steps involved in the final delivery of product to consumers in these communities, notably the additional transportation costs and the wholesale and retail margins, result in prices considerably higher than those in other parts of the Province. Prices range from a low of $1.10 per gallon in Nain to a high of $1.22 per gallon in Port Hope Simpson, or in other words between 22.1¢ per gallon and 34.3¢ per gallon higher than the Provincial average. (See Tables 1 & 2)

It is difficult to comment further on the prices in Labrador without considerably more information and analysis. Within the next few months government officials should visit Labrador for a more intensive look at the problem. The isolation of the Labrador communities and the unusual weather conditions in the area are sufficient reasons to warrant a separate and more intensive study of petroleum prices in Labrador.

IV - Motor Gasoline

The following discussion on the pricing of motor gasoline is segregated into regular gasoline and unleaded gasoline. Before proceeding with this discussion however, a few comments on the concept retail margin, will make this section of the report more understandable for the reader (See Appendix A for more detail).

The retail margin a dealer places on motor gasoline is a consequence of two major factors, sales volume and degree of competition. The question of what is a just or reasonable retail margin on motor gasoline in a market economy is as difficult to answer for this commodity as any other. The information presented here on retail margins in the Province highlights the average range consumers may expect to find for

communities of varying sizes. Discussions with officials of Energy, Mines and Resources in Ottawa reveal that the retail margin in rural communities in Newfoundland are not out of line with similar locations in other areas of Canada.

Range of Retail Margins on Motor Gasoline* in Communities Throughout Newfoundland & Labrador

Community Size	Retail Margin Range on Motor Gasoline Regular Grade ¢ per litre
Small, isolated community (e.g. Mary's Harbour)	5.5-6.2
Small, rural community (e.g. Port Saunders)	4.8-5.5
Medium community (e.g. St. Anthony)	4.2-4.8
Semiurban community (e.g. Marystown)	3.5-4.2
Urban community (e.g. Corner Brook)	3.1-4.2

* Unleaded gasoline is normally 1.5¢ per litre more expensive than regular gasoline of which 0.4¢ per litre is additional retail margin due to lower volumes of sales.

A - Regular Gasoline

Table 2 shows the weighted average price of regular gasoline for the 10 Census Divisions covered in the survey. Census Division III, South Coast, has the lowest weighted average price at 29.3¢ per litre, and Census Division IX, Northern Peninsula, has the highest weighted average price at 31.0¢ per litre.

On the Island the lowest prices for regular gasoline are found in Fogo and Seldom in Division III, Notre Dame Bay, at 27.7¢ per litre, which is followed closely by Ramea in Division III, South Coast, at 28.2¢ per litre. (See Table 4) These prices are between 1.8¢ per litre and 2.3¢ per litre lower than the Island average of 30.0¢ per litre. Surprisingly, the community of Ramea, which showed close to the highest prices on the Island for furnace fuel and stove oil, showed on of the lowest regular gasoline prices. This situation can be explained by gasoline inventory levels which were sufficient to sustain the community throughout the winter so that price increases were not warranted. In Seldom and Fogo the lower prices are a consequence of favourable local management policies of the agent.

Victoria in Division I, Avalon Peninsula, showed the highest Island price at 32.9¢ per litre. This price would appear to be high, especially with the competitionwhich exists in the immediate area: for example Harbour Grace at 30.9¢ per litre. (See Table 4) From this information one would conclude that the average retail margin charged by dealers in this community approaches 5.9¢ per litre.

In the communities of Labrador City - Wabush and Happy Valley/ Goose Bay, the competition amongst service station operators results in prices being in line with those of the Island. The prices in Labrador City - Wabush, 20.4¢ per litre, and Happy Valley/Goose Bay, 29.9¢ per litre, are effectively the same as the Island average of 30.0¢ per litre.

The communities of L'Anse aux Loup, West St. Modeste, Red Bay and Forteau are all serviced by the same supplier, however there is a significant variance in price in Red Bay. The communities of L'Anse aux Loup, West St. Modeste and Forteau pay 32.2¢ per litre, 32.0¢ per litre, and 32.7¢ per litre respectively (see Table 4). Retail margins here are estimated to range from 4.4¢ per litre to 5.1¢ per litre; however, the community of Red Bay, with a price of 37.0¢ per litre, is experiencing a retail margin of approximately 8.8¢ per litre.

For the remaining communities on the coast of Labrador included in the survey, namely Cartwright, Mary's Harbour, Nain, Makkovik and Port Hope Simpson, gasoline is supplied by the independent operating from Happy Valley/Goose Bay. The distribution and marketing procedure for motor gasoline to these communities is essentially the same as it is for stove oil. The independent purchases product from his supplier and sells to his agents in these communities. The agents in these communities then set the final selling price to the consumer. The only exception to this general rules is, once again, Nain where the independent uses a paid employee.

In the communities of Nain and Makkovik, the price charged to consumers is 31.9¢ per litre and 31.7¢ per litre (see Table 4). The retail margin on product in these two communities is estimated to be 2.6¢ per litre in Nain, and 2.4¢ per litre in Makkovik.

The remaining communities on the coast are charged the following: Cartwright, 34.9¢ per litre, Mary's Harbour, 35.2¢ per litre, and Port Hope Simpson, 35.6¢ per litre. In Cartwright, Mary's Harbour and Port Hope Simpson, margins are estimated to be 5.7¢ per litre, 5.9¢ per litre, and 6.4¢ per litre respectively.

B - Unleaded Gasoline

Table 3 shows the weighted average price of unleaded gasoline for the 10 Census Divisions covered in the survey. This Table shows that Division IV, St. Georges, recorded the lowest price with prices averaging 30.7¢ per litre, followed closely by Division III, South Coast, where prices averaged 30.9¢ per litre. The area of the Province facing the highest average price was Division IX, Northern Peninsula, where the price was 32.2¢ per litre. The Provincial and Island average was 31.5¢ per litre.

Looking more closely at the Island portion of the Province, one can see from Table 4 that Victoria is experiencing the highest average unleaded gasoline prices as well. The price in this community was 33.9¢ per litre. With a final consumer price of 33.9¢ per litre it is estimated that the retail margin is 5.7¢ per litre. Such a margin may be viewed in light of Harbour Grace, where, the price was 32.0¢ per litre, and the estimated retail margin is 3.7¢ per litre.

Several other communities throughout the Island show higher prices as well. The community of Halfway Point in Division V, Humber District, has a median price of 33.3¢ per litre. This price suggests the retail margin is approximately 4.6¢ per litre.

The community of Buchans Junction, with a price of 32.8¢ per litre, suggests a retail margin of approximately 4.4¢ per litre. The situation for the community of Msugrave Harbour where the price is 32.3¢ per litre, suggests a retail margin of 4.2¢ per litre. In Glovertown where the price is 33¢ per litre, a retail margin of 4.4¢ per litre, is suggested. The town of St. Anthony, with a price of 32.7¢ per litre, has a retail margin approximately the same as Glovertown. Finally, an examination of of the Labrador prices indicated prices were very competitive with the Island portion of the Province. In the communities of Labrador City - Wabush and Happy Valley/Goose Bay the prices paid for unleaded gasoline were 32.5¢ per litre and 31.2¢ per litre respectively. The Island average was 31.5¢ per litre.

It is interesting to note when looking over Table 4 that certain communities have prices significantly below the Provincial average. For example the two communities with the lowest prices in the Province, Fogo and Seldom in Division VIII, Notre Dame Bay, have a similar price of 28.8¢ per litre. Stephenville and Kippens in Division IV, St. Georges both pay 30.3¢ per litre, suggesting that their retail margins were approximately 1.8¢ per litre.

STATISTICAL TABLES

TABLE 1

WEIGHTED AVERAGE PRICES OF FUEL OIL,

NEWFOUNDLAND AND LABRADOR, APRIL 1980

	CENSUS DIVISION	FURNACE OIL	STOVE OIL
		(cents per gallon)	
1.	Avalon Peninsula	81.1	86.5
2.	Burin Peninsula	83.8	87.4
3.	South Coast	84.6	88.2
4.	St. Georges	80.5	85.5
5.	Humber District	80.0	85.5
6.	Central Nfld.	81.8	86.8
7.	Bonavista/Trinity	83.0	87.5
8.	Notre Dame Bay	83.6	88.9
9.	Northern Peninsula	83.3	88.5
10.	Labrador	85.0*	99.1**
	Island Average	81.9	86.9
	Provincial Average	82.1	87.7

* Includes Labrador City/Wabush and Happy Valley/Goose Bay only.

** Includes Happy Valley/Goose Bay and coastal communities.

TABLE 2

Prices of Fuel Oil - Newfoundland and Labrador

April, 1980

COMMUNITY	Furnace Oil	Stove Oil
	(cents per gallon)	
DIVISION I		
St. John's	80.7	86.6
Kelligrews	80.6	84.1
Harbour Main	82.3	85.4
Placentia	83.0	88.5
Harbour Grace	81.2	86.8
Victoria	81.9	87.1
Arnold's Cove	83.2	87.6
Greens Harbour	80.9	86.5
Fermuse	80.0	85.5
DIVISION II		
Garden Cove	82.2	86.6
Burin	83.7	86.8
Epworth	83.7	86.8
Fortune	85.1	89.0
DIVISION III		
Channel - Port aux Basques	82.7	86.8
Ramea	88.5	90.5
English Harbour West	82.8	87.4
St. Veronicas	82.3	87.3
DIVISION IV		
Stephenville	80.7	85.3
Kippens	80.7	85.3
Port au Port	80.0	85.3
Stephenville Xing	81.0	85.6
Great Codroy	81.8	86.8

TABLE 2 (Cont'd)

COMMUNITY	Furnace Oil	Stove Oil
	(cents per gallon)	
DIVISION V		
Deer Lake	80.0	85.6
Corner Brook	80.0	85.5
Benoits Cove	80.0	85.5
Steady Brook	80.0	85.5
Halfway Point	80.0	85.5
DIVISION VI		
Windsor - Grand Falls	81.3	86.5
Bishops Falls	81.3	86.5
Badger	81.3	86.3
Buchans Jct.	82.1	87.3
Gander	83.2	87.6
Glenwood	83.2	87.6
DIVISION VII		
Glovertown	85.7	88.8
Catalina	82.3	87.3
Clarenville	82.4	87.1
Lady Cove	82.4	87.1
Newtown	84.5	88.3
DIVISION VIII		
Lewisporte	81.3	86.8
Musgrave Harbour	83.0	88.2
Fogo	81.3	86.3
Seldom	81.3	86.3
Change Islands	88.8	94.3
DIVISION IX		
Englee	81.8	86.8
St. Anthony	82.3	87.8
Sally's Cove	85.0	90.0
Green Island Brook	82.8	88.3

TABLE 2 (Cont'd)

COMMUNITY	Furnace Oil	Stove Oil
	(cents per gallon)	
DIVISION X		
Labrador City - Wabush	85.5	N/A
Happy Valley - Goose Bay	84.1	87.1
Cartwright	112.0	
Mary's Harbour	120.0	
L'Anse au Loup	88.3	
West St. Modeste	88.3	
Red Bay	90.3	Multi-Purpose
Forteau	88.3	
Nain	109.8	Fuel
Makkovik	119.0	
Port Hope Simpson	122.0	

TABLE 3

WEIGHTED AVERAGE PRICE OF GASOLINE AT SERVICE STATIONS

NEWFOUNDLAND AND LABRADOR, APRIL 1980

CENSUS DIVISION	REGULAR Cents per Litre	UNLEADED Cents per Litre
Avalon Peninsula	30.1	31.7
Burin Peninsula	29.9	31.7
South Coast	29.3	30.9
St. Georges	29.6	30.7
Humber District	29.9	31.6
Central Nfld.	29.7	31.1
Bonavista/Trinity	29.8	31.0
Notre Dame Bay	29.8	31.9*
Northern Peninsula	31.0	32.2
Labrador	30.9	32.1**
Island Average	30.0	31.5
Provincial Average	30.0	31.5

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* Pricing in Lewisporte and Musgrave Harbour only.

** Pricing in Labrador City/Wabush and Happy Valley/Goose Bay only.

TABLE 4

Prices of Gasoline, Regular Service Stations

Newfoundland and Labrador

April, 1980

COMMUNITY	Regular	Unleaded
	(cents per litre)	
DIVISION I		
St. John's	29.4	31.1
Kelligrews	28.9	30.3
Harbour Main	29.6	31.9
Placentia	29.3	31.4
Harbour Grace	30.9	32.0
Victoria	32.9	33.9
Arnold's Cove	31.1	31.5
Green's Harbour	31.0	32.9
Fermeuse	31.0	31.9
DIVISION II		
Burin	30.0	32.0
Epworth	30.0	32.0
Fortune	29.7	31.1
DIVISION III		
Channel - Port aux Basques	29.8	30.8
Ramea	28.2	N/A
English Harbour West	29.7	N/A
St. Veronicas	30.1	31.2
DIVISION IV		
Stephenville	29.3	30.3
Kippens	29.3	30.3
Port au Port	29.9	30.8
Stephenville Crossing	29.6	31.7
Creat Codroy	30.2	31.2

TABLE 4 (Cont'd)

COMMUNITY	Regular	Unleaded
	(cents per litre)	
DIVISION V		
Deer Lake	29.9	30.9
Corner Brook	29.7	31.1
Benoits Cove	30.4	N/A
Steady Brook	29.9	30.9
Halfway Point	30.2	33.3
DIVISION VI		
Windsor - Grand Falls	29.2	30.7
Bishops Falls	29.9	31.7
Badger	30.2	31.5
Buchans Jct.	31.0	32.8
Gander	29.6	30.6
Glenwood	29.5	30.8
DIVISION VII		
Glovertown	31.8	33.0
Catalina	30.2	31.7
Clarenville	29.6	30.4
Lady Cove	29.6	30.4
Newtown	29.4	30.7
DIVISION VIII		
Lewisporte	30.5	31.5
Musgrave Harbour	30.8	32.3
Fogo	27.7	28.8
Seldom	27.7	28.8
Change Islands	31.2	N/A
DIVISION IX		
Englee	30.8	31.8
St. Anthony	31.3	32.7
Sally's Cove	30.8	32.1
Green Island Brook	31.2	32.3

TABLE 4 (Cont'd)

COMMUNITY	Regular	Unleaded
	(cents per litre)	
DIVISION X		
Labrador City - Wabush	30.4	32.5
Happy Valley - Goose Bay	29.9	31.2
Cartwright	34.9	N/A
Mary's Harbour	35.2	N/A
L'Anse au Loup	32.2	N/A
West St. Modeste	32.0	N/A
Red Bay	37.0	N/A
Forteau	32.7	N/A
Nain	31.9	N/A
Makkovik	31.7	N/A
Port Hope Simpson	35.6	N/A

TABLE 5

FUEL TAX IN EFFECT FOR

COMMUNITIES COVERED IN THE SURVEY[1]

COMMUNITY	Municipal Tax Cents per Gallon
DIVISION I	
St. John's	2.00
Placentia	2.00
Harbour Grace	1.00
Victoria	0.75
Arnold's Cove	1.00
DIVISION II	
Fortune	2.00
DIVISION III	
Ramea	1.00
DIVISION IV	
Kippens	1.00
Stephenville Xing	1.00
DIVISION V	
DIVISION VI	
Badger	2.00
DIVISION VII	
Glovertown	1.25
Clarenville	1.00
Newtown	1.00

Table 5 (Cont'd)

COMMUNITY	Municipal Tax Cents per Gallon
DIVISION VIII	
Musgrave Harbour	1.00
Fogo	1.00
Change Islands	0.50
DIVISION IX	
St. Anthony	0.50
Sally's Cove	1.00
DIVISION X	
Happy Valley - Goose Bay	1.50
Port Hope Simpson	1.00

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1. The Municipalities Act, which came into effect April 1, 1980 will result in the removal of municipal fuel taxes as of January 1, 1981. The only two exceptions to this are St. John's and Corner Brook, both of which have the legislative means to impose or not impose municipal fuel taxes.

APPENDIX A

PETROLEUM PRODUCT MARKETING IN NFLD - BASIC CONCEPTS AND ILLUSTRATIONS

The purpose of this appendix is to illustrate the various methods used in the province in determining the final prices for the three petroleum products discussed in this report. While reading what is to follow it is important to keep in mind that the examples given are for illustrative purposes only. The actual values expressed, although reasonable in the context of each example, do not apply to any particular community surveyed. They have been used only to illustrate the various stages involved in the pricing process.

Furnace Fuel Pricing

In general furnace oil prices are determined in the following manner. In the majority of communities on the Island furnace oil is distributed to the consumer by dealer operated, or dealer sponsored, retail outlets, that is, outlets either operated by the oil companies or operated by agents of the oil companies. In the case where outlets are operated by the oil companies an employee receives a salary for distributing the fuel. Where the outlet is operated by an agent the agent receives a commission on fuel sales. In both cases a dealer posted price is set by the oil companies and this is the final price charged to the consumer. This posted price varies throughout the province because transportation costs, which are reflected in the posted price, increase as distance from marine terminals increase

The only community in the Province which was found to have a different marketing arrangement for furnace fuel was Ramea where furnace fuel is distributed to the consumer by an independent company. The independent company purchases the product directly from the oil company at

a discount rate. The price paid by the independent company for the fuel along with a retail margin* determine the final price paid by the consumer (see example 2).

One other component which might be included in the final price of furnace fuel, depending on location and the dealer involved, is a charge of 3¢ per gallon for burner service. This extra charge provides the consumer with furnace cleaning and servicing once a year as well as covering any labor cost involved in emergency service calls. This service is gradually being phased out by the dealers. It should be noted that certain communities are subjected to municipal fuel taxes and this is included in the final price (see Table 5).

EXAMPLE 1: DETERMINING FURNACE OIL PRICE PER GALLON
DEALER OPERATED OR DEALER SPONSERED OUTLET

Posted Dealer Price	= 86¢
Final Price	= 86¢

EXAMPLE 2: DETERMINING FURNACE OIL PRICE PER GALLON
INDEPENDENTLY OWNED OUTLET

Posted Dealer Price	= 81¢
Discount	= 3¢
Transportation Costs	= 4¢
Retail Margin	= 4¢
Final Price	86¢

* The retail margin reflects operating costs incurred by the company as well as profit. The difference between final price and dealer price is the retail margin.

STOVE OIL PRICING

The stove oil marketing arrangements in the Province, with the exception of the isolated coastal communities of Labrador, are similar to those for furnace oil, i.e. retail outlets either operated by salaried or commissioned agents (see Example 3) or, in the case of Ramea operated by an independent company (see Example 4).

For those communities in Labrador namely Cartwright, Mary's Harbour, Nain[1], Makkovik and Port Hope Simpson the distribution process is a unique one. An independent company purchases the product from the oil company at a price set by the oil company (referred to as the dealer posted price). The independent company then transports the product to the various communities where he then sells to independent agents operating in each community at a price which is the sum of the dealer posted price and a wholesale margin[2]. The independent agent then adds an additional retail margin to this price and the result is the retail price to the consumer (see Example 5).

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1. Unlike the other isolated communities Nain has an employee of the independent company distributing product to the consumer. This does not change the pricing process itself but the retail margin becomes somewhat less than in the other communities.

2. Wholesale margin reflects any cost incurred by the independent company as well as his profit.

EXAMPLE 3: DETERMINING STOVE OIL PRICE PER GALLON
DEALER OPERATED OR DEALER SPONSERED OUTLET

Posted Dealer Price	=	88.0¢
Final Price		88.0¢

EXAMPLE 4: DETERMINING STOVE OIL PRICE PER GALLON
INDEPENDENTLY OWNED OUTLET

Posted Dealer Price	=	84¢
Discount	=	3¢
Transportation Costs	=	4¢
Retail Margin	=	4¢
Final Price		89¢

EXAMPLE 5: DETERMINING STOVE OIL PRICE PER GALLON
FOR ISOLATED COMMUNITIES OF LABRADOR

Dealer Posted Price (Charged by Oil Company	=	85¢
Wholesale Margin (Charged by Independent Company)	=	14¢
Retail Margin (Charged by Independent Agent)	=	14¢
Final Price		113.0¢

MOTOR GASOLINE PRICING

The compenoents which determine the retail price of motor gasoline are as follows:

- the oil company posted price, i.e. wholesale price
- the federal sales tax of 9% which is incorporated in the oil company posted price;
- the federal excise tax;
- the provincial road fuel tax;
- the dealer retail margin

The wholesale price is the price charged by the oil company to the dealer. It reflects the wholesaler's cost as well as his profit margin. The federal sales tax of 9% is incorporated into the wholesale price. Added to the dealer posted price is the federal excise tax of 1.5¢ per litre, and the provincial road fuel tax of 5.99¢ per litre. The dealer retail margin is then added to this cost. It reflects the dealers' operating costs as well as profit margin. The reail margin varies within the province but is usually around 3.5¢ per litre. In communities where volume of sales is very low the retail margin is higher. A detailed breakdown of how the final price is dtermined is given below.

EXAMPLE 6: DETERMINING GASOLINE PRICE PER LITRE

	¢ per litre
Wholesale Price	17.8
Federal Sales Tax (9%)	1.6
Federal Excise Tax	1.5
Provincial Road Fuel Tax	5.99
Retail Margin	3.5
Final Price	30.4

NOTE: The above example indicates the procedure for pricing regular gasoline. Unleaded gasoline is usually around 1.5¢ per litre higher. This varies and may be somewhat higher depending on volume of sales.

In Labrador the situation is slightly different for the isolated coastal communities. The presence of the independent oil company is an additional step in the distribution process which adds another 2.6¢ to 3.3¢ per litre to the final price of motor gasoline.

APPENDIX B

COMPARISON OF PETROLEUM PRODUCT PRICES:

PROVINCES OF CANADA

Furnace Fuel

By comparison with other Provinces in Canada prices in Newfoundland for furnace fuel are somewhat higher. From Chart 1, which contains year-end 1979 pricing information for all Provinces in Canada, one can see that the Newfoundland price exceeds the prices in Central and Eastern Canada by between 2 - 4¢ per gallon. Further, Figure 1 indicates that the percentage increase in the cost of furnace fuel between 1977 and year-end 1979 was higher in Newfoundland than any other Province. The differences in price between central and eastern Canadian locations and Newfoundland result primarily from higher transportation charges. This disadvantage is one which applies not only to petroleum products but to many commodities consumed in this Province. When one moves further West, specifically to Saskatchewan and Alberta, the price differential increases to 5 - 6¢ per gallon. Lower costs there result in part from the fact those two Provinces together are major producers of crude oil which is refined in their own refineries for local consumption. Consequently the transport charges associated with moving product and crude to other locations are absent.

Stove Oil

By comparison with other Provinces in Canada, Newfoundland's stove oil pricing relationship is the same as that of furnace fuel. Chart 2 shows that Newfoundlanders paid the highest price in Canada for stove oil as of year-end 1979, and Figure 1 shows that Newfoundland experienced the highest percentage increase between 1977 and 1979.

As in the case of furnace fuel, the price differentials between Newfoundland and the other Provinces increase as one moves further West. The explanation is, once again, higher transportation charges.

Regular Gasoline

By comparison with other areas of Canada the regular gasoline pricing relationship in the Province is the same as it is with furnace fuel and stove oil.

Chart 3 shows that in a major centres comparison St. John's paid the highest prices for regular gasoline in both 1977 and 1980. Figure 2 shows that St. John's fared reasonably well with regard to the percentage increase in regular gasoline prices between 1977 and 1980 when compared to other major centres in Canada. Apart from the higher transportation costs Newfoundland faces relative to the rest of Canda three factors enter into the final price paid by consumers. Firstly, the Federal sales tax of 9% is computed on a higher base price than other areas of Canada secondly, the Provincial road fuel tax is the highest in Canada and; thirdly, the retail margin set by dealers is amongst the highest in the country (see Table A).

Unleaded Gasoline

By comparison with other areas of Canada, one can see from Chart 4 that relative to the other major centres St. John's had the highest price for unleaded gasoline. Figure 2 shows that St. John's did not fare too badly between 1977 and 1980 with respect to percentage increase. Table B shows that Newfoundland has the highest retail margin and highest provincial road tax in the country for unleaded gasoline.

Furnace Fuel

In comparison with other Provinces in Canada prices in Newfoundland for furnace fuel are somewhat higher. From Chart 1, which contains year-end 1979 pricing information for all Provinces in Canada, one can see that the Newfoundland price exceeds the prices in Central and Eastern Canada by between 2 - 4¢ per gallon. Further, Figure 1 indicates that the percentage increase in the cost of furnace fuel between 1977 and year-end 1979 was higher in Newfoundland than any other Province. The differences in price between central and eastern locations and Newfoundland result primarily from higher transportation charges. This disadvantage is one which applies not only to petroleum products but to many commodities consumed in this Province. When one moves further west, specifically Saskatchewan and Alberta, the price differential increases to 5 - 6¢ per gallon. These lower costs result in part from the fact these two Provinces are major producers of crude oil which is refined in their own refineries for local consumption. Consequently, the transport charges associated with moving product and crude to other locations are absent.

Stove Oil

In comparison with other Provinces in Canada the situation of Newfoundland respecting the price of stove oil is the same as that with furnace fuel Chart 2 indicates that Newfoundlanders payed the highest cost in Canada for stove oil as of year-end 1979, and figure 1 indicates that Newfoundalnd experienced the highest percentage increase between 1977 and 1979.

TABLE 1

MAJOR CENTRES CANADA

REGULAR GASOLINE PRICE COMPARISON

(Cents per Imperial Litre)

CITY	PERIOD	WEIGHTED AVERAGE PUMP PRICE ¢/litre	PROVINCIAL ROAD TAX ¢/litre	RETAIL PRICE LESS PROV. ROAD TAX ¢/litre	RETAIL MARGIN ¢/litre	AVERAGE PPTWP* ¢/litre
St. John's, Nfld.	December/79	228.0	6.0	222.0	3.1	24.9
Halifax Dartmouth	January/80	225.3	4.7	20.6	2.8	222.5
Saint John, N.B.	December/79	24.1	1.1	19.7	1.9	222.3
Montreal	January/80	24.5	4.2	20.3	2.4	222.1
Ottawa	December/79	24.7	4.6	20.1	1.9	223.9
Hull	December/79	24.3	4.2	20.1	1.9	222.4
Toronto	December/79	24.0	4.6	19.4	1.6	222.3
Winnipeg	January/80	223.7	1.0	19.7	2.1	21.6
Regina	January/80	24.0	4.2	19.8	2.5	21.5
Edmonton	January/80	19.0		19.0	1.9	17.1
Vancouver	January/80	222.9	3.8	19.1	1.3	21.7

* Average Posted Dealer Tankwagon Price Includes Canada Sales Tax and Federal Excise Tax & Provincial Road Tax.

Source: Price Monitoring and Marketing Section, Department of Energy, Mines & Resources, Canada.

TABLE 2

MAJOR CENTRES - CANADA

UNLEADED GASOLINE PRICE COMPARISON

(cents per Imperial Litre)

CITY	PERIOD	WEIGHTED AVERAGE PUMP PRICE ¢/Litre	PROVINCIAL ROAD TAX ¢/Litre	RETAIL PRICE LESS PROV. ROAD TAX ¢/Litre	RETAIL MARGIN ¢/Litre	AVERAGE PDTWP* ¢/Litre
St. John's, Nfld	December/79	29.7	6.0	23.7	3.6	26.2
Halifax - Dartmouth	January/80	26.2	1.7	24.5	2.7	23.5
Saint John, N.B.	December/79	25.6	4.4	21.2	2.2	23.4
Montreal	January/80	26.4	4.2	22.2	3.1	23.3
Ottawa	December/79	26.4	4.6	21.8	2.4	24.0
Hull	December/79	26.3	4.2	22.1	2.7	23.6
Toronto	December/79	25.6	4.6	21.0	2.1	23.5
Winnipeg	January/80	25.2	4.0	21.2	2.4	22.8
Regina	January/80	25.6	4.2	21.4	2.8	22.8
Edmonton	January/80	20.5		20.5	2.2	18.3
Vancouver	January/80	25.6	3.8	20.8	1.7	23.9

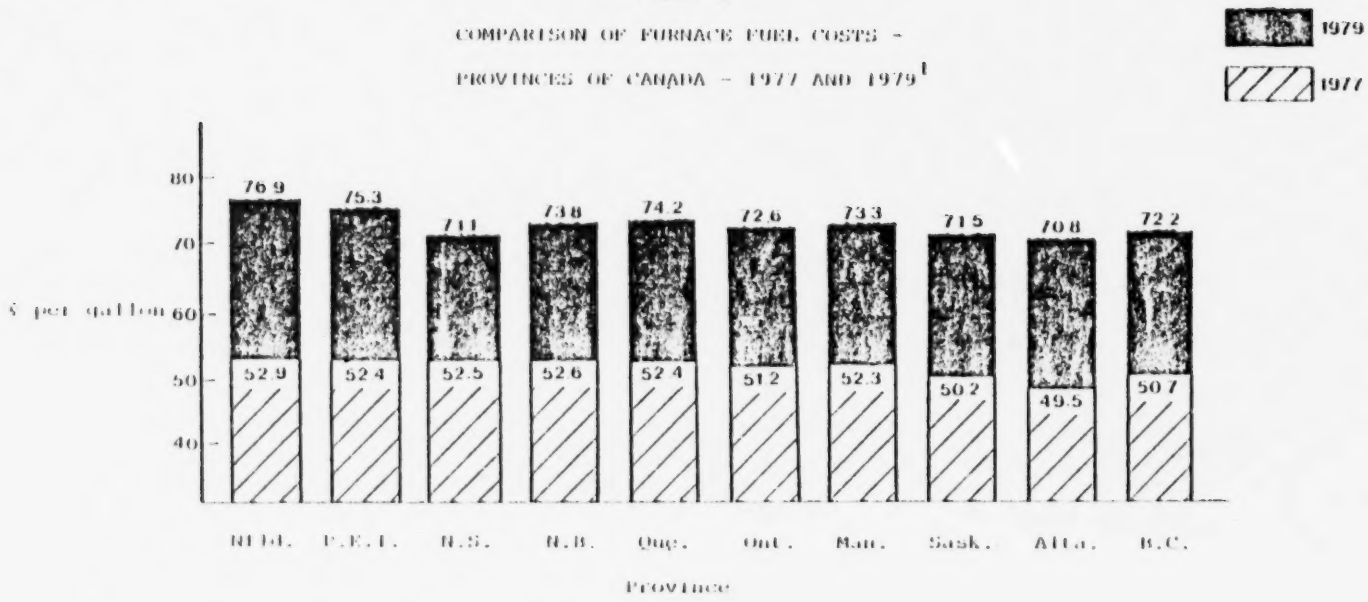
* Average Posted Dealer Tankwagon Price. Includes Canada Sales Tax and Federal Excise Tax & Provincial Road Tax.

Source: Price Monitoring and Marketing Section, Department of Energy, Mines & Resources, Canada

CHART I

COMPARISON OF FURNACE FUEL COSTS -

PROVINCES OF CANADA - 1977 AND 1979[1]

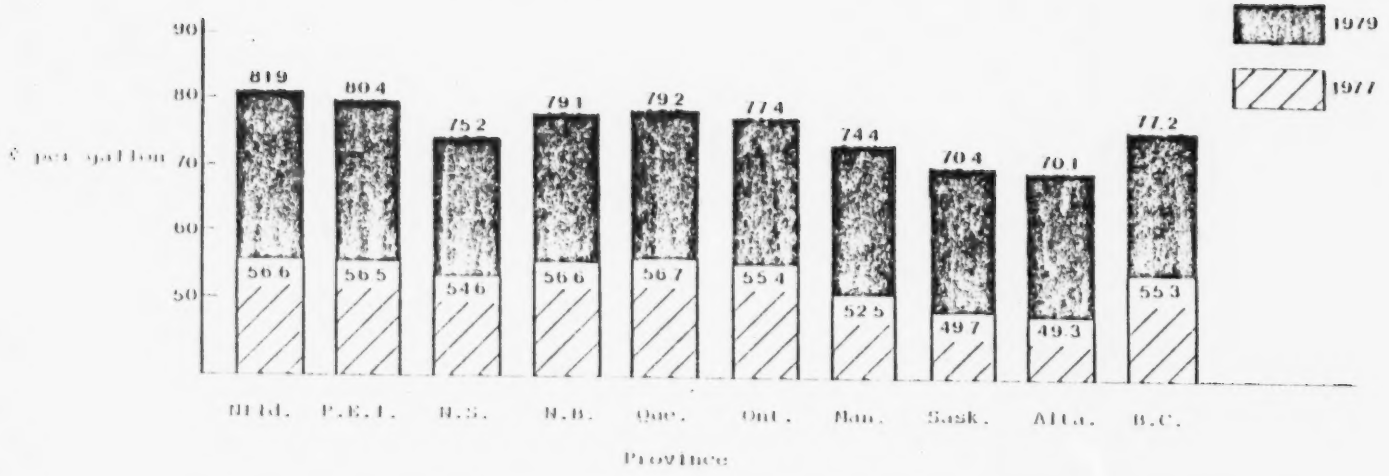


[1]Price Monitoring and Marketing Section, Energy, Mines and Resources - May-June, 1977
December 31, 1979

CHART 2

COMPARISON OF STOVE OIL COSTS –

PROVINCES OF CANADA – 1977 AND 1979[1]

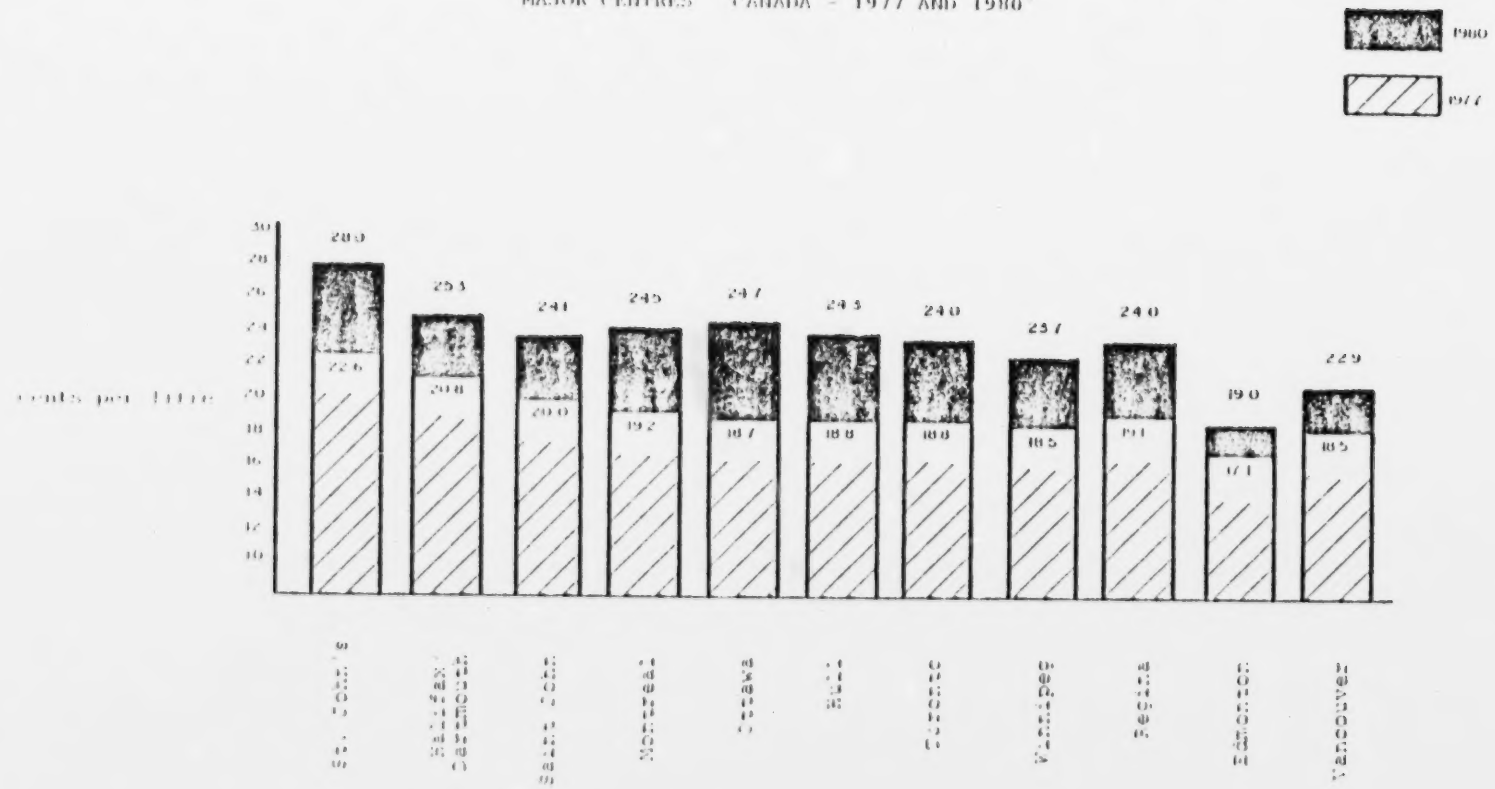


[1] Price Monitoring and Marketing Section, Energy, Mines and Resources – May–June, 1977
December 31, 1979

CHART 1

COMPARISON OF REGULAR GASOLINE

MAJOR CENTRES - CANADA - 1977 AND 1980[1]



[1] Price Monitoring and Marketing Section, Energy, Mines and Resources - June August, 1977
December, 1979-January, 1980

CHART 4

COMPARISON OF UNLEADED GASOLINE

MAJOR CENTRES - CANADA - 1977 AND 1980

[1] Price Monitoring and Marketing Section, Energy, Mines and Resources - June - August, 1977
December, 1979 - January, 1980

FIGURE 1

% INCREASE IN FURNACE OIL AND STOVE OIL
BY PROVINCE, 1977 AND 1979

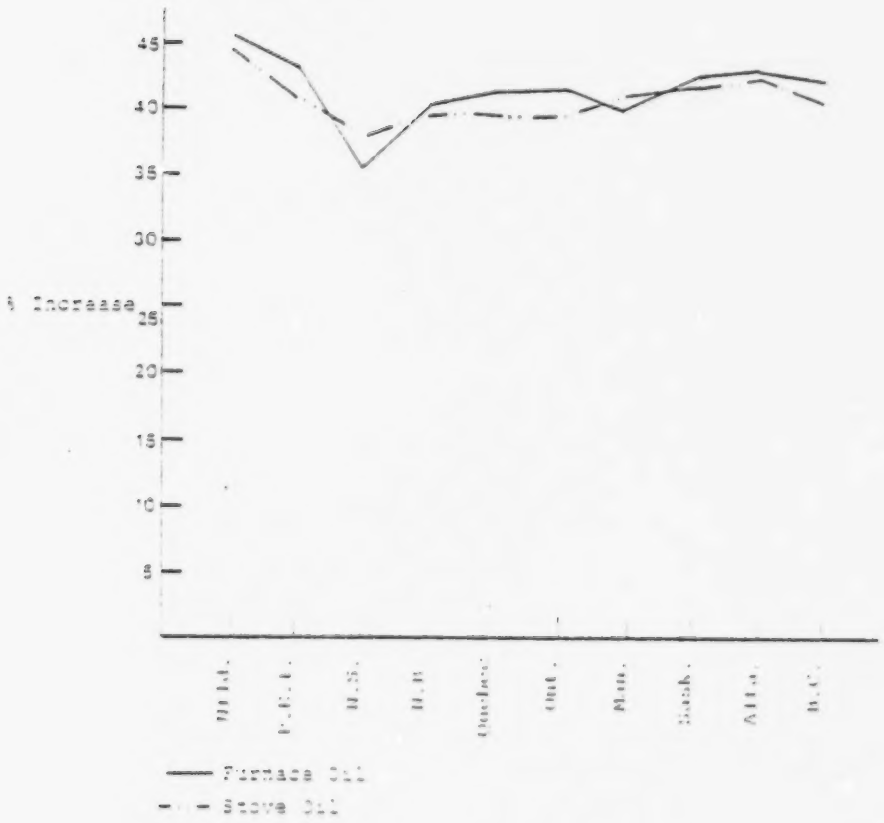


FIGURE 1

PERCENTAGE INCREASE IN REGULAR AND UNLEADED GASOLINE
FOR MAJOR CENTRES IN CANADA, 1977 TO 1980